

**COMMONWEALTH OF MASSACHUSETTS**  
**DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

	)	
Petition of Cambridge Electric Light Company for	)	
Approval of a Rate S-2 Tariff Pursuant to	)	D.T.E. 03-58
G.L. c. 164, § 34A	)	
	)	

**INITIAL BRIEF OF CAMBRIDGE ELECTRIC LIGHT COMPANY**

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**I. INTRODUCTION**

Cambridge Electric Light Company d/b/a NSTAR Electric (“NSTAR Electric” or the “Company”) files this Initial Brief in the above-referenced proceeding. On May 15, 2003, the Company submitted to the Department of Telecommunications and Energy (the “Department”) a proposed Rate S-2 tariff governing the provision of streetlighting service to customers in the Company’s service territory who have purchased streetlight facilities from the Company pursuant G.L. c. 164, § 34A (“Section 34A”). Section 34A governs the rights and obligations of municipalities seeking to purchase streetlights from an electric company through an “alternative” streetlighting tariff approved by the Department. G.L. c. 164, § 34A(a)(i).

As described below, the Company has designed its proposed Rate S-2 tariff in a manner consistent with Department precedent regarding rate design. Therefore, The Company requests that the Department approve the Company’s proposed Rate S-2 tariff.

**II. BACKGROUND AND PROCEDURAL HISTORY**

On May 15, 2003, the Company filed its proposed Rate S-2 tariff (M.D.T.E.



No. 241 (proposed)) with the Department for approval.<sup>1</sup> On July 1, 2003, the Department issued an Order of Notice establishing a public hearing and procedural conference for August 4, 2003. At the August 4, 2003 public hearing and procedural conference, the Department granted a Petition to Intervene of the City of Cambridge (the “City”).

An evidentiary hearing was held at the Department on September 9, 2003. The Company presented one witness, Henry LaMontagne, Director of Regulatory Policy and Rates for Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, d/b/a NSTAR Electric and NSTAR Gas Company. The City did not present a witness. The Company has responded to eight information requests issued by the Department and the City, collectively, as well as four record requests asked by the City.

### **III. STANDARD OF REVIEW**

The Electric Restructuring Act of 1997 (the “Act”) authorizes municipalities to purchase streetlights owned by an electric company. Chapter 164, Acts of 1997, § 196 (codified at G.L. c. 164, § 34A). Pursuant to G.L. c. 164, § 34A, a municipality may purchase streetlighting facilities owned by an electric company and:

convert its street lighting service from the subject tariff to an alternative tariff approved by the [D]epartment providing for delivery service by the electric company of electric energy, whether supplied by the electric company or any other person, over distribution facilities and wires owned by the electric company to lighting equipment owned or leased by the municipality... Id.

Department precedent regarding the standard for reviewing proposed alternative streetlight tariffs is limited (see Boston Edison Company, D.T.E. 98-108 (1999);

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<sup>1</sup> The Company filed a revised Rate S-2 tariff on June 18, 2003, that included distribution charges that were inadvertently missing from the Company’s proposed Rate S-2 tariff filed on May 15, 2003.



Massachusetts Electric Company, D.T.E. 98-69 (1999)). However, the Department has substantial precedent regarding the design of rates in general. Accordingly, the Company designed its proposed Rate S-2 in a manner consistent with the Department's goals for utility rate structure: (1) efficiency; (2) simplicity; (3) continuity; (4) fairness; and (5) earnings stability. See Boston Gas Company, D.P.U. 96-50 (Phase I) at 133-136; Boston Gas Company, D.P.U. 93-60, at 331-332; Cambridge Electric Light Company, D.P.U. 92-250, at 163. The Department has specifically referenced the goal of efficiency in Massachusetts Electric's first petition to approve an alternative streetlighting tariff, D.T.E. 98-69, by stating that "one of the Department's rate-design goals is to produce a rate for a particular class of customers that generates revenues covering the entire cost of serving that particular class of customers." D.T.E. 98-69, at 11. The Company has designed its proposed S-2 rate consistent with each of these goals, as described herein.

#### **IV. THE COMPANY'S RATE DESIGN METHODOLOGY IS CONSISTENT WITH THE DEPARTMENT'S APPROVED RATEMAKING PRACTICES**

##### **A. The Company's Rate Design Is Consistent with the Department's Long-Standing Rate Structure Goals.**

The Company's rate design is consistent with the Department's long-standing rate structure goals of: (1) efficiency; (2) simplicity; (3) continuity; (4) fairness; and (5) earnings stability. The Department has stated that, in order to promote these goals for rate structure, rate design must satisfy two objectives: (1) cost recovery; and (2) consistency with the marginal costs to serve the class of customers for which the rate is designed. See Cambridge Electric Light Company, D.P.U. 92-250, at 194.<sup>2</sup>

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<sup>2</sup> To determine rate structure, the Department reviews a Company's cost allocation methodology and rate design methodology. The Company's Rate S-1, on which the proposed Rate S-2 is based, was designed using a cost allocation and rate design methodology approved by the Department in the Company's last rate case, D.P.U. 92-250, at 180-193, 206 (1993).



The Company's method for calculating charges to be recovered in the proposed Rate S-2 tariff is consistent with this precedent. As the starting point, the Rate S-2 tariff derives directly from the Company's Rate S-1, which has been designed to recover the Company's approved revenue requirement for its streetlight services and is based upon the embedded costs approved from its last rate case, Cambridge Electric Light Company, D.P.U. 92-250 (1993). From this starting point, the Company then removed the marginal costs of all outdoor lighting equipment and expenses representing the costs of the streetlighting facilities that the customer is purchasing from the Company (Exh. DTE-1-1). The D.P.U. 92-250 proceeding is the most recent proceeding in which a Marginal Cost Study has been approved by the Department for the Company. Accordingly, the Company's rate design for its proposed Rate S-2 tariff satisfies the objectives of: (1) cost recovery; and (2) eliminating marginal costs associated with the Company's streetlighting facilities from the rate (reflecting the fact that a customer will have purchased the Company's streetlights if they are taking service pursuant to the tariff).

The proposed Cambridge Rate S-2 tariff was designed using the streetlight costs from the Marginal Cost Study for each category of streetlight (by rate and type), as follows:

- The Company subtracted the streetlighting equipment costs (Specific Facilities Charge)<sup>3</sup> from the total charge (Total Base and Fuel Charge), approved by the Department in D.P.U. 92-250, resulting in a Total Energy

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<sup>3</sup> The Specific Facilities Charge that is subtracted from the total charge for the Company's streetlight service consists of carrying charges relating to the investment costs of the facilities themselves, including the luminaire, brackets, photo cells, as well as costs to install and remove the facilities (Exh. CAM-DTE-1-2(c), at page 5 (labeled Exhibit 1A); Exh. DTE-1-3 (a)). In addition, the Specific Facilities charge includes the maintenance costs relating to the streetlight fixtures (Exh. CAM-DTE-1-2(c), at page 6 (labeled Exhibit 1B); Exh. DTE-1-3(b)).



Charge for each category (see Exhibit CAM-HCL-2, page 1). The Total Energy Charge represents a pre-electric utility deregulation (March 1, 1998) charge excluding the streetlighting equipment costs;

- The Company next adjusted each category's respective pre-deregulation Total Energy Charge for inflation and then reduced the charge by 15 percent, consistent with the provisions of G.L. c. 164, § 1B(b). The charge for Standard Offer Service was subtracted from this adjusted charge, resulting in a Total Delivery Charge (see Exhibit CAM-HCL-3, page 1);
- The Total Delivery Charge was unbundled to reflect the mandated rate charge components for Transmission, Energy Efficiency (DSM), Renewables, and Transition (each charge as reflected on Exhibit CAM-HCL-3 and the Company's approved tariffs). The Company subtracted these charges from the Total Delivery Charge to calculate the Luminaire Charge reflected on the proposed Rate S-2 (id.).

By starting with the rates approved by the Department for the Company's streetlighting class that are reflected in the Company's Rate S-1 tariff, the Company's rate design promotes the Department's goals of efficiency and fairness. An efficient rate design is one that reflects the cost of providing service and provides an accurate basis for consumer decisions about how best to fulfill their needs. New England Telephone, D.P.U. 93-125, at 6 (1994), citing New England Telephone, D.P.U. 89-300, at 11-12 (1990); Cambridge Electric Light Company, D.P.U. 92-250 (1993). The Company's proposed Rate S-2 is efficient because it includes those costs approved by the Department that reflect the cost to society of providing utility service to the streetlights in the City, minus the Specific Facilities Costs, including facilities cost, interest costs and maintenance costs, that are associated with the facilities to be purchased by a customer (in this case, the City). Moreover, the proposed Rate S-2 is structured to ensure that the class of customers that purchase the Company's streetlights pays no more than the costs



of serving that class.<sup>4</sup> Accordingly, the Company's rate design promotes fairness to the Company's customers.

The Company's proposed rate design for its Rate S-2 also promotes the Department's goal of simplicity. The rate structure used by the Company is simple to understand because the fundamental assumption made by the Company in designing the proposed rate was to remove those costs from the rate that relate specifically to the costs of the fixtures that will be purchased by a customer. The remaining adjustments, for inflation and to accommodate the Act's 15 percent rate reduction, are based on the provisions of the Act in G.L. c. 164, § 1B(b) and are simple mathematical calculations. The remaining action of unbundling the current values for transition, transmission, energy efficiency, renewables and standard offer price components is also a simple mathematical calculation based on approved rates for these components. Accordingly, the Company's proposed Rate S-2 is simple and easily understood.

The proposed Rate S-2 also is consistent with the Department's goal of rate continuity. Unlike in D.T.E. 98-69, the Company is not proposing to increase the revenue requirement that would be recovered by the proposed rate from that previously approved by the Department. See D.T.E. 98-69, at 12. Rather, the revenue requirement that would be recovered by the Company in the proposed Rate S-2 tariff is the same as that approved by the Department for the streetlighting class in D.P.U. 92-250, minus the costs associated with the Specific Facilities Costs for the streetlights. A purchaser of the Company's streetlights will thus realize a reduction in costs by taking service from the

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<sup>4</sup> It bears noting, however, that Rate S-1, on which the proposed rate S-2 is based, is a subsidized rate class with over \$280,000 of the costs to serve Rate S-1 allocated to other rate classes see Exh. CAM-DTE-1-2(a)(Att.) at Schedule 4, Column 5).



Company through its proposed Rate S-2. Accordingly, the proposed Rate S-2 is designed consistent with the promotion of rate continuity.

In addition, the Company's rate design promotes the Department's goal of earnings stability. By basing the proposed rate on the Company's embedded costs to serve streetlighting customers, the Company has a cost basis for recovering the costs incurred to provide the specific service at issue. Accordingly, the proposed Rate S-2 promotes stability for the Company. Based on the above analysis, the Company has demonstrated that its rate design methodology for its proposed Rate S-2 is consistent with each of the Department's long-standing rate structure goals, and therefore, should be approved by the Department.

**B. The Company's Proposal Is Consistent With the Department's Limited Precedent on Section 34A.**

Both the Department and the City have focused, in part, on attempting to compare the Company's proposed rate design with that used by other electric companies (see, e.g., Exhs. CAM-City-1-6, CAM-City-1-7; CAM-DTE-1-1, Tr. 1, at 7-20, 37, 40, 51; RR-City-1, RR-City-2). As described below, the Company's rate design methodology is consistent with that used by other companies for designing alternative streetlight tariffs. However, past Department precedent regarding Section 34A issues is not applicable uniformly to the Department's consideration of the Company's proposed Rate S-2 tariff and, thus, the Department should rely on its long-standing precedent governing rate design issues to analyze the Company's proposed Rate S-2 tariff.

The Department sought information from the Company regarding the consistency of the Company's rate design with Massachusetts Electric Company's ("MECo") alternative streetlight tariff (Exh. CAM-DTE-1-1). Both in response to an information



request and during the evidentiary hearing, the Company testified that, because the Company's marginal cost calculations include all investment costs normally associated with the Company's Account 373 and the expenses normally associated with its Operations and Maintenance Accounts 585 and 596, the Company's methodology was consistent with that used by MECo (id.; Tr. 1, at 53-57). Moreover, the Company's methodology for designing its proposed Rate S-2 tariff is simpler to perform than that used in D.T.E. 00-37 and results in a total delivery revenue calculation that is less than that which would be derived by using the D.T.E. 00-37 methodology (\$641,120 versus \$673,622) (Exh. CAM-DTE-1-1; Exh. CAM-DTE-1-1(a)). Accordingly, the Company demonstrated how its proposed Rate S-2 design is consistent with the design used by MECo in D.T.E 00-37.

However, it must also be noted that D.T.E. 00-37 was not focused on rate design issues, *per se*, but rather on the rights of a municipality to purchase less than the totality of a company's streetlighting facilities (Department found that each streetlight the city of Haverhill chose to purchase must include the integral facility, including the underground conduits and cables whose sole purpose is to serve such streetlights). D.T.E. 00-37, at 3-4. Accordingly, the Department should not rely on D.T.E. 00-37 for direct precedent regarding the appropriateness of the Company's rate design.

The City has also asked the Company at various times in this proceeding to compare its proposed Rate S-2 design with that used by another distribution company, i.e., Boston Edison Company ("Boston Edison") (Exh. CAM-City-1-7; Tr. 1, 7-20, 37, 40, 51; RR-City-1, RR-City-2). In responding to such inquiries, the Company has noted that the Department's order in Boston Edison Company, D.T.E. 98-108 (1999) merely



approved a settlement of issues in that proceeding regarding the propriety of Boston Edison's then-proposed Rate S-2 tariff. The Department noted in its D.T.E. 98-108 order that its "acceptance of the Joint Motion [of settlement] does not constitute a determination or finding on the merits of any allegations, contentions, or arguments made in this investigation and should not be interpreted as establishing precedent for future filings whether ultimately settled or adjudicated." D.T.E. 98-108, at 6 (1999). The City's attempt to compare the rate design methodology of Cambridge to the methodologies of Boston Edison, with its own unique rate structure and historical costs, is inapt.<sup>5</sup>

Accordingly, the Company has demonstrated that its proposed Rate S-2 is designed consistently with the methodologies used by MECo. However, because Department precedent regarding Section 34A issues is not, in general, directly applicable to this proceeding, the Department should base its consideration regarding the appropriateness of the Company's rate design methodology on its long-standing rate structure goals.

## **V. CONCLUSION**

The Company has demonstrated that its methodology for designing its proposed Rate S-2 tariff is consistent with Section 34A and approved ratemaking practices.

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<sup>5</sup> The City also requested that the Company compare its Rate S-2 design with that proposed by MECo in D.T.E. 98-69. In that proceeding, the Department considered a request by MECo to allow the company to increase the revenue requirement that it had agreed to in its Restructuring Settlement in order to set its rates in a proposed alternative streetlighting tariff at the company's fully allocated cost of service to serve that class. See D.T.E. 98-69, at 5, 9-10. The Department rejected the company's request, based on a determination that the resulting rates in the company's alternative streetlighting tariff would violate the Department's rate continuity goal. Id. at 12. In this proceeding, the Company is not proposing to adjust its revenue requirement from that approved in its last rate case, and thus, no rate continuity issues are present in the Company's proposal. As it relates to MECo's rate design, the Department's precedent in D.T.E. 98-69 did no more than address the rate continuity issue. Accordingly, the Department's precedent in that proceeding is not applicable to the Department's consideration of the Company's proposed Rate S-2 tariff.



Accordingly, the Company requests that the Department approve its proposed Rate S-2 tariff.

Respectfully submitted,

**CAMBRIDGE ELECTRIC LIGHT COMPANY  
d/b/a NSTAR ELECTRIC**

By its attorneys,

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